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DIRECTORATE OF  
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INTERNATIONAL MONETARY DEVELOPMENTS: Finance ministers of the major industrial nations, unable to resolve the latest crisis at their Paris meeting yesterday, decided to meet again next Friday.

There was apparently no serious conflict among the participants at the meeting, but the number and complexity of the options available to them made an immediate decision impossible. High-level EC meetings on Sunday and Monday will serve to prepare the community position for next week's conference. Trading in foreign exchange markets apparently will continue to be limited to interbank transactions, at least until 19 March.

EC sources have told the US Mission in Brussels that the presentation of community proposals for US actions at the Paris meeting was considerably toned down, apparently from near-demands to "suggestions for mutual reflections." EC finance ministers reportedly deliberately omitted from their proposals any mention of a link between trade and monetary issues.

The same EC sources also reported the first sign that London might be willing to soften its preconditions to participation in a joint EC float. There were also some indications [redacted]

[redacted] that French opposition to a joint float is less categorical than publicly indicated. Compromises by London and Paris would ease the way for a joint float, although it is clear that the Europeans still have problems to resolve among themselves.

[redacted] Rudiger von Wechmar, the official spokesman of the West German Government, reported that the EC had agreed on a joint float against the dollar. According to his report, the UK and Italy [redacted]

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will repeg their currencies against those of the other EC countries. In return West Germany apparently has agreed to extend standby credits up to about \$8.5 billion to support the new pound and lira parities. Presumably the joint float would be activated if next Friday's EC meeting with the US and other major financial powers fails to produce an agreement to return to fixed parities against the dollar with the US actively intervening in the foreign exchange market to support the new dollar rate.

The dollar firmed somewhat in light interbank trading in Europe yesterday. Traders appear to be hesitant to commit themselves before seeing the outcome of the international conference.

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SOUTH VIETNAM: The Communists appear to be intensifying civic action programs to attract people into areas under their control.

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[REDACTED] the Viet Cong in widely scattered provinces have been ordered to refurbish roadways, markets, schools, and administrative facilities, and to provide temporary or permanent housing where needed. In some areas, the Communists plan to offer funds and equipment to help new settlers make a living, and in other areas they plan to stress land reform and redevelopment. As yet, the extent of the resources the Communists are putting into this effort is not readily apparent. Over the short run, at least, they are unlikely to be able to develop a program of sufficient scope to achieve much success.

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[REDACTED] the Communists are trying to induce people to move into their zones with an eye to future elections. [REDACTED]

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[REDACTED] the Communists have moved several hundred people into thinly populated areas in some of the northern provinces to till the land and provide the Viet Cong with a ready-made electorate. [REDACTED]

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[REDACTED] the Communists are repatriating Vietnamese from Cambodia, resettling them in border provinces north of Saigon, and giving them Viet Cong identification papers for use in future elections.

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[REDACTED]

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PHILIPPINES-MALAYSIA: Manila is intensifying diplomatic pressure on Malaysia to curb Sabah's support to Philippine Muslim dissidents.

Philippine Secretary of Foreign Affairs Romulo on 6 March summoned the diplomatic representatives of the other members of the Association of Southeast Asian Nations (ASEAN)--Malaysia, Singapore, Indonesia, and Thailand--to brief them on Manila's charges against Sabah Chief Minister Tun Mustapha. Romulo said that President Marcos planned to issue a strongly worded public statement charging that foreign mercenaries trained and supported by Sabah have joined indigenous Philippine Muslims in coordinated attacks on Philippine forces. The statement would also claim that these attacks are aimed at the creation of a separate Muslim state in Mindanao. Sabah has given some assistance to Muslim dissidents, but the proposed statement exaggerates the scope of this involvement.

Romulo suggested that Marcos is being pressured in this matter by an aroused military establishment with the implication that if Malaysia does not take some action against Mustapha to alleviate the situation now, there could be more trouble later. Romulo subsequently made a show of contacting Marcos to pass on the diplomats' heated objections and claimed that Marcos had agreed to withhold the statement. The President may still decide to issue it.

The session with the diplomats was obviously a carefully staged effort to convince ASEAN members that Malaysia is the villain in the Muslim situation. Although this latest ploy is bound to increase concern in ASEAN capitals over the prospects for continued regional cooperation, there is no indication that Kuala Lumpur will be stampeded into disciplining Mustapha without getting some quid pro quo from Marcos on his territorial claims to Sabah. [REDACTED]

[REDACTED]

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CHINA: The rehabilitation of officials ousted during the Cultural Revolution continues to cause tensions between the returning veterans and the younger cadres who replaced them.

[redacted] the new cadres, whose criticism helped remove experienced officials during the Cultural Revolution, are afraid that rehabilitated cadres will now seek revenge. Moreover, fearing that the rehabilitation program will leave them jobless, they are often unwilling to relinquish their positions. Returning officials, for their part, are reluctant to take on responsibility lest they come under renewed attack and are not anxious to train younger colleagues. Propaganda broadcasts have warned that if old and new cadres do not work together, "our cause will be lost."

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Many lower-level cadres have resumed former duties over the past year, chiefly because their skills are badly needed. Mismanagement by new cadres, chosen more for their political attitudes than their know-how, has reportedly hampered production. But some veteran cadres have refused to return to work. The official party newspaper recently encouraged re-enlistment by noting with approval that many party members who had wanted to retire and hand over their jobs to the younger generation have "changed their minds" and are now willing to assume heavier burdens.

Rivalry between new and old cadres may be delaying the rumored rehabilitation of several former party leaders. In December, officials in Kwangtung reportedly halted the study of a document outlining plans to rehabilitate ten national party leaders from pre-Cultural Revolution days; the official explanation was that far more than ten would be reinstated. Some of the veterans, however, reportedly [redacted]

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will not accept rehabilitation without a public apology for their previous treatment, a concession they are not likely to win from the younger members of the current leadership.

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THE KOREAS: An incident in the Demilitarized Zone on 7 March--the first since last spring--will not interfere with the continuation of the North-South talks. The two sides announced on 9 March that agreement had been reached to hold the next round of negotiations in Pyongyang beginning 14 March. The speed with which the new date was set, particularly after Pyongyang canceled last week's meeting, suggests both sides are anxious to keep such incidents from increasing tensions that could lead to a breakdown in the talks. Neither side has attempted to exploit the incident in its propaganda; Pyongyang's statements have been low-keyed and Seoul has avoided all comment. [REDACTED]

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FINLAND: CEMA officials and Finnish Trade Ministry representatives will begin negotiations on 12 March in Moscow on an arrangement that may lead to Finland's signing the draft free-trade agreement with the EC this year. Soviet leaders will visit Helsinki on 6 April, the 25th anniversary of the Finnish-Soviet Friendship Treaty. The terms of a Finnish-CEMA agreement could reveal what price Finland may pay for Soviet acquiescence in a Finnish-EC connection. Finnish press commentary compares the current activity with the maneuvering that led to Finland's joining EFTA in 1960. At that time, Khrushchev visited Helsinki and publicly endorsed Finland's membership in EFTA. [REDACTED]

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